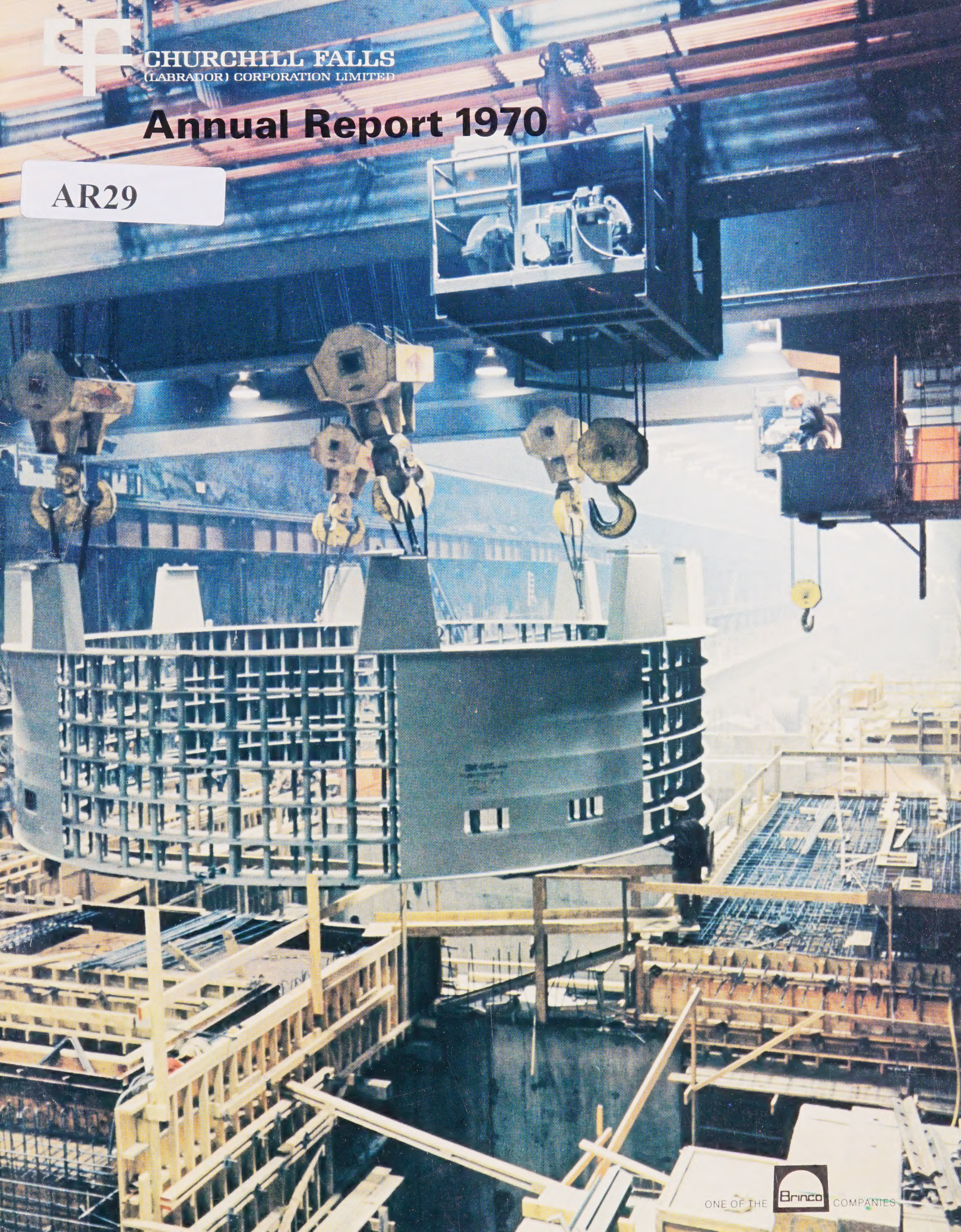




**CHURCHILL FALLS**  
(LABRADOR) CORPORATION LIMITED

# Annual Report 1970

AR29











## Officers

Chairman:  
SIR VAL DUNCAN, O.B.E.

President and Chief Executive Officer:  
WILLIAM D. MULHOLLAND

Executive Vice-President:  
H. L. SNYDER, P. Eng.

Vice-President:  
H. W. MACDONELL, Q.C.

Vice-President:  
R. C. BERRY, C.A.

Vice-President:  
P. A. T. KEEPING

Vice-President:  
W. E. BRADFORD

Secretary:  
G. R. DEVEY, C.A.

Treasurer:  
M. C. BURNES, C.A.

## Directors

\*HENRY BORDEN, S.M., C.M.G., Q.C.  
Toronto, Ontario  
Former Chairman,  
British Newfoundland Corporation Limited

ROBERT A. BOYD, Eng.  
Montreal, Quebec  
Commissioner,  
Quebec Hydro-Electric Commission

YVON De GUISE, Eng.,  
Montreal, Quebec  
Commissioner,  
Quebec Hydro-Electric Commission

\*SIR VAL DUNCAN, O.B.E.,  
London, England  
Chairman and Chief Executive,  
The Rio Tinto-Zinc Corporation Limited

ROLAND GIROUX,  
Montreal, Quebec  
President,  
Quebec Hydro-Electric Commission

\*SAM HARRIS,  
New York, U.S.A.  
Senior Partner,  
Fried, Frank, Harris, Shriver & Jacobson

GEORGE P. HOBBS,  
St. John's Newfoundland  
Chairman,  
Newfoundland and Labrador Power Commission

\*ANDRE MONAST, Q.C.,  
Quebec City, Quebec  
Partner,  
St. Laurent, Monast, Desmeules & Walters,  
Barristers & Solicitors

\*ROBERT D. MULHOLLAND,  
Montreal, Quebec  
Vice-Chairman,  
Bank of Montreal

\*WILLIAM D. MULHOLLAND,  
Montreal, Quebec  
President & Chief Executive Officer,  
British Newfoundland Corporation Limited and  
Churchill Falls (Labrador) Corporation Limited;  
Chairman,  
British Newfoundland Exploration Limited

EDMUND L. de ROTHSCCHILD, T.D.,  
London, England  
Chairman,  
N. M. Rothschild & Sons Limited

H. L. SNYDER, P. Eng.,  
Montreal, Quebec  
Vice-President,  
British Newfoundland Corporation Limited;  
Executive Vice-President,  
Churchill Falls (Labrador) Corporation Limited;  
President,  
Twin Falls Power Corporation Limited

\*ARTHUR S. TORREY,  
Montreal, Quebec  
Honorary Chairman,  
Pitfield, Mackay, Ross & Company Limited

SIR MARK TURNER,  
London, England  
Deputy Chairman,  
Kleinwort Benson Ltd., and  
The Rio Tinto-Zinc Corporation Limited

*\* Member of the Executive Committee*

HEAD OFFICE  
1 Viking Road, St. John's, Newfoundland

EXECUTIVE OFFICE  
One Westmount Square, Montreal 216, Quebec

*On peut obtenir un exemplaire français de ce rapport auprès du service des Relations publiques, Churchill Falls (Labrador) Corporation Limited, Un, Westmount Square, Montréal 216 (Québec).*

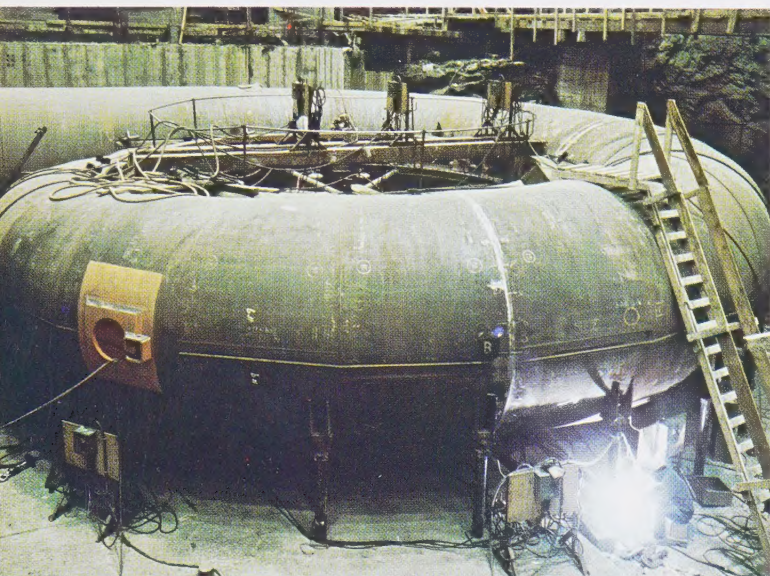
*Front Cover: Installation of turbine/generator components for the first of eleven 648,000-horsepower units in the Churchill Falls underground powerhouse was underway during the latter part of 1970. Shown in the photograph is a stator frame, 37 feet in diameter, being hoisted into position by the 800-ton capacity powerhouse cranes.*







# Foreword from the President



As we entered 1970, the most important year for the Churchill Falls Project in terms of employment and expenditure, we were faced with re-building the management team following the tragic losses suffered on November 11, 1969. We were also faced with making good the disruption of work schedules caused by a 14-week rail stoppage which began on May 9, 1969.



WILLIAM D. MULHOLLAND

As 1970 ended we stood somewhat past the halfway mark, on schedule and within budget.



Of the total estimated direct cost of the Project of \$666 million, only about \$128 million remained uncommitted including the balances in our provisions for contingency and escalation. Major contracts yet to be awarded included the last of three 735 kV transmission circuits, the Gabbro control structure and the 230 kV transmission lines which will connect the Churchill Falls and Twin Falls plants. Incurred direct costs to the end of 1970 totalled about \$386 million, or nearly 60 per cent of the direct construction cost estimate of \$666 million. Of this, it is estimated that approximately \$656 million will have been spent in Canada, thereby providing a substantial stimulus to the economy of Canada.

As a result of the successful adherence to schedules during 1970 it appears that we shall be able to spin the first two units in the Churchill Falls powerhouse before the end of 1971, as was the intention when the Project was formally committed in January, 1967. Regular commercial operation of the plant is scheduled to begin on May 1, 1972 with two units, the scale of operations increasing as additional generating units are installed.

(continued on page 4)



*Facing page:* Excavation of the various chambers in the underground powerhouse complex was completed in July, 1970, and involved the removal of more than 2,300,000 cubic yards of rock. With excavation completed, emphasis was switched to civil work, primarily concreting. Shown here is the surge chamber, second largest of the chambers in the underground complex, which accommodates surges resulting from fluctuations in the water flow through the turbines.

Because of limited clearances on the overland transportation route into Churchill Falls, the scroll cases (*above*) were shipped in segments weighing between 55 and 92 tons then welded together inside the powerhouse. Welding was carried out from both the exterior and interior (*centre*) of the cases after which the completed units were subjected to critical inspection and pressure testing.

Leaving the surge chamber (*bottom*) the water will enter the two tail-race tunnels, each of which is more than one mile long, 60 feet high and 45 feet wide. By October, 1970, more than 13,000 cubic yards of concrete had been placed in the surge chamber excavation alone.



At the present time we retain the capability of accelerating the final completion of the Project by up to a year and thereby increasing its energy output during the period prior to the scheduled completion date of 1976 by up to about 20 billion kilowatt hours. This is in contrast to the situation in which some other systems currently find themselves. It is unfortunate that adequate system interconnections do not exist which would permit us to be of some assistance to localities where temporary difficulties have retarded the installation of needed generating capacity.

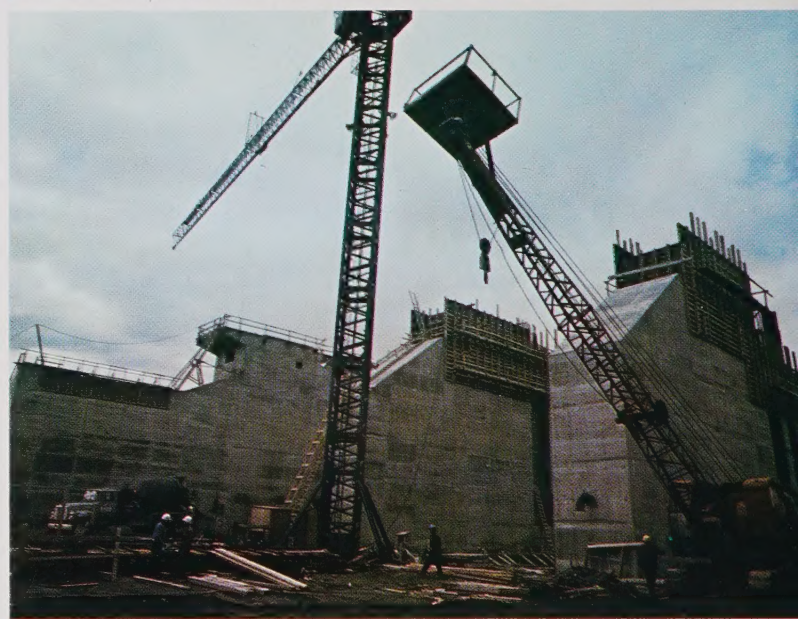
The thoroughness of the integrated planning for the Project is worth stressing not only in recognition of the people responsible but to point out how important it is that techniques be developed for successfully carrying out long-range projects such as Churchill Falls. The undertaking of large financial commitments for ventures spanning long periods of time is a risky business. At the same time the need for such ventures is growing all the time and will continue to grow if Canada's full industrial potential is to be realized.

Long-term capital is scarce in Canada and in extremely short supply in other parts of the world. It should be committed only with the greatest prudence and after assurance that development techniques are thoroughly sound. There has been great progress in the last few years in devising and improving these techniques so that today it is possible to approach an undertaking requiring a large investment with a reasonable degree of confidence. While the record has not always been such as to inspire unqualified confidence, I would hope that one of the benefits which will accrue from the Churchill Falls

Gates for the Lobstick control structure (*top*) were installed in November, 1970, in readiness for the filling of the reservoir which will begin during the summer of 1971. Each of the three Lobstick gates measures 63 feet high, 45 feet wide and four feet thick and each is heated and insulated to permit year-round operation. The Lobstick structure, located at the head of the Upper Churchill River some 50 miles upstream from the power installations, will control the flow of water from the Main Reservoir.

During 1970, work was completed on the concreting of the Forebay spillway, (*centre*) one of six control structures and spillways in the reservoir system. Construction of the sixth structure at Gabbro is scheduled to begin during the summer of 1971.

First diversion of the Churchill River took place at Jacopie Island in October, 1970, following completion of the Jacopie spillway (*bottom*). The diversion was a three phase operation involving first the construction of cofferdams both upstream and downstream of the structure in the east channel of the Churchill River to the right of the island. A third cofferdam in the west channel of the river was partially completed. Once work on the spillway was completed, the east channel cofferdams were breached and the gap in the west dam was sealed thus diverting water through the spillway. Gates for the Jacopie spillway were installed in February, 1971.







Project will be a measure of improvement in the techniques of planning, organizing and managing large long-term projects.

As a result, it is hoped that there will be an increase in the level of confidence which attends the prospective launching of large enterprises, for there are a number in Canada on a scale comparable to that of Churchill Falls which should be launched. While industry can continue to improve upon its capacity for carrying out such undertakings and contribute the skills and, most importantly, the creative impulse and imagination to conceive these large and vital developments and the drive necessary to carry them through to a successful conclusion, these qualities are at a severe discount in the service of society in the absence of an economic and political environment in which they can flourish. The creation or the maintenance of such an environment is a challenge calling for both wisdom and skill on the part of Government and its leaders. With the benefit of such leadership it is fair to expect us in industry to perform our roles; without it our best efforts must yield but indifferent results.

*William D. Mulholland*

WILLIAM D. MULHOLLAND,  
PRESIDENT AND CHIEF EXECUTIVE OFFICER

Montreal, March 4, 1971.

Despite disruptions in the dyke-building schedules due to a stoppage of the Quebec North Shore & Labrador Railway during the 1969 season, it was possible to recover lost time on this phase of the project during 1970. To date, the 40 miles of relatively low-level dykes required to contain the 2,200-square-mile Churchill Falls reservoir stand more than two-thirds completed. Some 20 million cubic yards of embankment have now been completed for the Forebay and reservoir and the remaining 7 million yards will be placed during the 1971 season.



# Report of Directors to Shareholders

The year 1970 was the most important year in the construction program of the Churchill Falls Project. It is a pleasure to report that it was possible to regain the ground lost in 1969 due to the rail stoppage and that the Project continues on schedule and within cost estimates.

## Principal Construction Activity

In 1970, the peak year of construction activity on the Churchill Falls Project, the labor force on site exceeded 6,000 during the height of the summer season. The ambitious program of dyke construction set for the 1970 season was largely achieved and in some instances exceeded. Some 20 million cubic yards of embankment have now been completed, leaving approximately 7 million cubic yards for the 1971 season. The last of the four major interceptions of river flows was effected on October 26, 1970. Gates have been installed at the Lobstick control structure in readiness for the commencement of filling the reservoir in the summer of 1971. During the year concrete construction on the Jacopie spillway, the Forebay spillway and the Whitefish control structure was completed, and the gates are now being installed.

All but two of the eleven intake structures have been completed and control gate installation is under way. Similarly, ten of the eleven inclined penstocks have been concrete lined and steel liners are being installed in the horizontal sections. The last of the rock was removed from underground on July 13, 1970.

During the year installation of the turbine/generator components got under way in the powerhouse. The scroll cases for the first two turbines have been encased in concrete and erection of their generators is proceeding. At the same time, turbine components for Units 3 and 4 are being installed. The 800-ton powerhouse crane has been commissioned and is being used for equipment installation. Remaining concrete work scheduled in the powerhouse, surge chamber and transformer gallery is nearing completion. The powerhouse elevator is now in operation. Work on the electrical distribution and piping systems began in the powerhouse area. The work of concreting some 3,000 footings in the vast switchyard was completed in 1970. Much of the steel work for the structures in this area has been erected.

Transmission towers have been erected over some 190 of the 250 line-miles on the first two of the three 735 kV

(continued on page 15)

*Top:* The Churchill Falls project group at site is headed by Richard D. Boivin, Project Manager (at head of table, background) and includes (clockwise) André Trudel, Administrative Assistant to Project Manager; Kenneth C. Eaton, Assistant Manager, Support Facilities; Raymond F. Hickey, Assistant Project Comptroller; H. Max Tomlinson, Assistant Manager, Transmission & Switchyard; Roy C. Legge, Administration Manager; Hugh J. O'Beirne, Assistant Manager, Power Facility; and Blaise Brochu, Assistant Manager, Storage.

*Centre:* The Montreal-based members of the project team are headed by Eamonn P. McCormack, Assistant Project Manager (seated) and include (left to right) Paul Joli-Coeur, Manager of Engineering; T. Vincent Steepe, Project Comptroller; and Charles W. R. Bowman, Manager Technical Services.

*Bottom:* Raymond H. P. Thom, Manager of Operations (left) and Richard D. Boivin, Project Manager.





**Balance Sheet as at December 31, 1970**

<b>Assets</b>	<b>1970</b>	<b>1969</b>
Current assets:		
Cash and short-term deposits.....	\$ 17,883,591	\$ 43,935,702
Accounts receivable (including \$210,559 from affiliates).....	4,345,304	5,374,358
Special refundable tax.....	—	21,713
Supplies and prepaid expenses.....	1,316,510	492,106
Total current assets.....	<u>23,545,405</u>	<u>49,823,879</u>
Funds held by trustee.....	—	1,400,000
Investment in shares of Twin Falls Power Corporation Limited (note 1).....	2,676,233	2,682,959
Churchill Falls power project, at cost.....	447,470,756	242,571,510
Less accumulated depreciation.....	5,747,456	5,012,656
	<u>441,723,300</u>	<u>237,558,854</u>
Debt discount and financing expenses.....	4,432,318	3,182,002
	<u>\$472,377,256</u>	<u>\$294,647,694</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable.....	\$ 27,237,791	\$ 18,272,848
Accrued liabilities.....	3,034,415	2,941,180
Total current liabilities.....	<u>30,272,206</u>	<u>21,214,028</u>
Long-term debt (note 2).....	357,209,956	188,984,488
Shareholders' equity:		
Capital stock (note 3).....	82,899,992	82,899,992
Retained earnings (note 4).....	1,995,102	1,549,186
	<u>84,895,094</u>	<u>84,449,178</u>
Commitments and contingent liabilities (note 5)	<u>\$472,377,256</u>	<u>\$294,647,694</u>

*The accompanying notes are an integral part of the above balance sheet and should be read in conjunction therewith.*

On behalf of the Board:

WILLIAM D. MULHOLLAND, Director

R. A. BOYD, Director





**CHURCHILL FALLS**  
(LABRADOR) CORPORATION LIMITED

**Statement of Earnings and Retained Earnings  
for the year ended December 31, 1970**

	1970	1969
Revenue from Twin Falls Power Corporation Limited:		
Rental of rights and facilities.....	\$ 734,800	\$ 725,000
Construction management fee.....	—	318
Gross revenue.....	<u>734,800</u>	<u>725,318</u>
Newfoundland rental (note 5(b)).....	72,358	70,217
Depreciation.....	<u>734,800</u>	<u>725,318</u>
	<u>807,158</u>	<u>795,535</u>
Operating profit (loss) for the year.....	(72,358)	(70,217)
Equity in net earnings of Twin Falls Power Corporation Limited for the year.....	<u>518,274</u>	<u>497,788</u>
Net earnings for the year.....	<u>445,916</u>	<u>427,571</u>
Retained earnings at beginning of year.....	1,549,186	1,121,615
Retained earnings at end of year.....	<u>\$ 1,995,102</u>	<u>\$ 1,549,186</u>

*The accompanying notes are an integral part of the above statement of earnings and retained earnings and should be read in conjunction therewith.*

**Statement of Source and Application of Funds  
for the year ended December 31, 1970**

	1970	1969
Source of funds:		
From current operations:		
Net earnings (loss) before equity in net earnings of Twin Falls Power Corporation Limited.....	\$ (72,358)	\$ (70,217)
Depreciation.....	<u>734,800</u>	<u>725,318</u>
	<u>662,442</u>	<u>655,101</u>
Reduction in funds held by trustee.....	1,400,000	(1,400,000)
Dividends from Twin Falls Power Corporation Limited.....	<u>525,000</u>	<u>562,500</u>
Issue of capital stock.....	—	6
Issue of long-term debt:		
First Mortgage Bonds Series A.....	160,975,468	77,109,488
First Mortgage Bonds Series B.....	7,250,000	11,875,000
General Mortgage Bonds.....	<u>—</u>	<u>75,000,000</u>
	<u>170,812,910</u>	<u>163,802,095</u>
Application of funds:		
Development of Churchill Falls power project.....	204,899,246	128,772,181
Debt discount and financing expenses.....	<u>1,250,316</u>	<u>1,576,219</u>
	<u>206,149,562</u>	<u>130,348,400</u>
Increase (decrease) in working capital.....	<u>\$ (35,336,652)</u>	<u>\$ 33,453,695</u>

*The accompanying notes are an integral part of the above statement of source and application of funds and should be read in conjunction therewith.*



## Notes to the Financial Statements as at December 31, 1970

### (1) Investment in Shares of Twin Falls Power Corporation Limited:

Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") holds voting control of Twin Falls Power Corporation Limited ("Twin Falls") through its ownership of all the Class A shares which carry four votes per share but these shares represent only one third of the shareholders' interest in Twin Falls and, therefore, its assets and liabilities have not been included in Churchill Falls' financial statements. The investment in Twin Falls is, however, carried on an equity basis.

Original cost.....		\$ 2,500,000
Equity in retained earnings at beginning of year.....	\$ 182,959	
Equity in net earnings for the year.....	518,274	
	701,233	
Dividends for the year.....	525,000	176,233
		<u>\$ 2,676,233</u>

### (2) Long-Term Debt:

	Authorized	Issued and Outstanding	
First Mortgage Bonds:			
7¾% Series A due December 15, 2007.....	\$500,000,000 (U.S.)	\$225,450,000 (U.S.)	\$238,084,956
7⅞% Series B due December 15, 2007.....	50,000,000	—	19,125,000
General Mortgage Bonds:			
7½% due three years after latest maturity of any			
First Mortgage Bonds.....	100,000,000	—	100,000,000
			<u>\$357,209,956</u>

The First Mortgage Bonds Series A are carried in the balance sheet at the proceeds realized in Canadian dollars.

Bond Purchase Agreements dated May 15, 1969, have been signed covering the purchase of all the authorized First Mortgage Bonds.

The First Mortgage Bonds are repayable in semi-annual instalments commencing two years after completion of the Churchill Falls power project ("Project") sufficient to retire them fully by maturity.

The Deed of Trust and Mortgage securing the General Mortgage Bonds provides for a sinking fund to be applied in redemption of the bonds, commencing after completion of the Project amounting to 2% of the balance outstanding at the commencement of each year, payable in semi-annual instalments. The General Mortgage Bonds are subordinate to the First Mortgage Bonds.

Churchill Falls has entered into an agreement dated May 15, 1969, with a consortium of Canadian banks, the terms of which provide for a credit not exceeding \$150,000,000 at any one time outstanding. No amounts may be drawn down under the agreement prior to January 1, 1972, and it is subject to certain other conditions.

### (3) Capital Stock:

Common shares without nominal or par value authorized and issued as at December 31, 1970, were:

	Shares	Amount
Authorized.....	10,000,000	
Issued and fully paid.....	8,759,999	\$ 82,899,992

There are restrictions on the issue of further capital stock without the approval of the holders of at least 75% of the outstanding common shares.

### (4) Dividend Restrictions:

The covenants of the debt instruments of Churchill Falls prohibit the payment of cash dividends by Churchill Falls prior to completion of the Project and place restrictions on the payment of cash dividends thereafter.





**CHURCHILL FALLS**  
(LABRADOR) CORPORATION LIMITED

(5) Commitments and Contingent Liabilities:

- (a) At December 31, 1970, Churchill Falls had entered into contracts related to the Project involving expenditures after that date estimated at \$135,000,000.
- (b) Under the Terms of The Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961, and amendments thereto, Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and is required to pay an annual rental of 8% of the consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).
- (c) Churchill Falls' liability under its pension plan for past service is being paid by annual instalments over 20 years. The payment for past service in 1970 was \$2,100 and the total unfunded liability for past service as at December 31, 1970, was \$27,900.

(6) Income Taxes:

Churchill Falls had no income subject to tax.

(7) Power Contract:

Quebec Hydro-Electric Commission and Churchill Falls have entered into a power contract dated May 12, 1969, providing for the purchase of substantially all the power from the Project for an initial period of approximately forty years with a renewal for a further period of twenty-five years.

(8) Company Directors' and Officers' Remuneration:

	Number	Aggregate Remuneration
Directors.....	14	\$ 21,517
Officers.....	9	123,804

There were three officers who were also directors.

Five of the officers did not receive remuneration as officers from Churchill Falls.

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Churchill Falls (Labrador) Corporation Limited as at December 31, 1970, and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1970, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.  
*Chartered Accountants.*

Montreal, Que.  
February 5, 1971



# TWIN FALLS POWER CORPORATION LIMITED

## Balance Sheet as at December 31, 1970

Assets	1970	1969
Current assets:		
Cash and short-term deposits.....	\$ 6,613,112	\$ 4,812,456
Marketable securities, at cost.....	—	1,750,000
Accounts receivable.....	453,891	392,686
Special refundable tax.....	—	31,171
Supplies and prepaid expenses.....	146,670	163,982
Total current assets.....	7,213,673	7,150,295
Funds held by trustee.....	545	906
Plant and equipment, at cost.....	59,914,629	59,910,247
Less accumulated depreciation.....	12,318,690	10,519,550
	47,595,939	49,390,697
	<u>\$54,810,157</u>	<u>\$56,541,898</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable (including \$32,410 to affiliates).....	\$ 75,146	\$ 42,968
Accrued liabilities.....	12,575	25,623
Dividends payable (including \$150,000 to affiliate).....	450,000	562,500
Income taxes payable.....	182,413	594,549
First Mortgage Bonds due within one year (\$1,586,000 U.S.) (note 1).....	1,691,679	1,600,993
Total current liabilities.....	2,411,813	2,826,633
First Mortgage Bonds (note 1):		
5½% Series A due June 30, 1986 (\$31,120,000 U.S.).....	33,137,687	34,600,772
6¼% Series B due June 30, 1989 (\$ 6,873,000 U.S.).....	7,410,992	7,639,587
	40,548,679	42,240,359
Deferred income taxes.....	3,820,967	3,426,029
Shareholders' equity:		
Capital stock (note 2):		
Authorized — 500,000 Class A shares of the par value of \$10 each		
— 1,000,000 Class B shares of the par value of \$10 each		
Issued — 250,000 Class A shares fully paid.....	2,500,000	2,500,000
— 500,000 Class B shares fully paid.....	5,000,000	5,000,000
Retained earnings (note 1).....	528,698	548,877
	8,028,698	8,048,877
Commitments and contingent liabilities (note 3)		
	<u>\$54,810,157</u>	<u>\$56,541,898</u>

The accompanying notes are an integral part of the above balance sheet and should be read in conjunction therewith.

On behalf of the Board:

M. F. NICHOLSON, Director

W. J. BENNETT, Director



# TWIN FALLS POWER CORPORATION LIMITED

## Statement of Earnings and Retained Earnings for the year ended December 31, 1970

	1970	1969
Sales of power.....	\$ 8,929,564	\$ 8,417,257
Cost of power.....	1,950,489	1,449,850
Interest.....	2,448,078	2,525,309
Depreciation.....	1,818,442	1,814,567
	<u>6,217,009</u>	<u>5,789,726</u>
Earnings before the following items.....	2,712,555	2,627,531
Income from investments.....	537,394	454,217
	<u>3,249,949</u>	<u>3,081,748</u>
Taxes on income:		
Current.....	1,300,190	1,106,593
Deferred.....	394,938	481,791
	<u>1,695,128</u>	<u>1,588,384</u>
Net earnings for the year.....	1,554,821	1,493,364
Retained earnings at beginning of year.....	548,877	743,013
	<u>2,103,698</u>	<u>2,236,377</u>
Dividends.....	1,575,000	1,687,500
Retained earnings at end of year.....	<u>\$ 528,698</u>	<u>\$ 548,877</u>

The accompanying notes are an integral part of the above statement of earnings and retained earnings and should be read in conjunction therewith.

## Statement of Source and Application of Funds for the year ended December 31, 1970

	1970	1969
Source of funds:		
From current operations:		
Net earnings.....	\$ 1,554,821	\$ 1,493,364
Depreciation.....	1,818,442	1,814,567
Deferred income taxes.....	394,938	481,791
Loss on disposal of plant and equipment.....	870	5,592
	<u>3,769,071</u>	<u>3,795,314</u>
Transfer of current taxes payable to deferred income taxes.....	—	171,312
Reduction in funds held by trustee.....	361	1,072,812
	<u>3,769,432</u>	<u>5,039,438</u>
Application of funds:		
Plant and equipment.....	24,555	237,173
Reduction of long-term debt.....	1,691,679	1,623,378
Dividends.....	1,575,000	1,687,500
	<u>3,291,234</u>	<u>3,548,051</u>
Increase in working capital.....	<u>\$ 478,198</u>	<u>\$ 1,491,387</u>

The accompanying notes are an integral part of the above statement of source and application of funds and should be read in conjunction therewith.



# TWIN FALLS POWER CORPORATION LIMITED

## Notes to the Financial Statements as at December 31, 1970

### (1) First Mortgage Bonds:

The following amounts of 5½% First Mortgage Bonds Series A due June 30, 1986, and 6¼% First Mortgage Bonds Series B due June 30, 1989, have been authorized, issued and retired by Twin Falls Power Corporation Limited ("Twin Falls"), pursuant to the terms of the Deed of Trust and Mortgage, as amended ("Trust Deed").

	Series A (U.S. \$)	Series B (U.S. \$)
Authorized.....	42,500,000	10,000,000
Issued.....	39,500,000	8,000,000
Retired.....	7,006,000	915,000
Outstanding December 31, 1970.....	32,494,000	7,085,000
Due within one year.....	1,374,000	212,000

The Bonds of each Series are repayable in equal semi-annual instalments of principal and interest. The Bonds are secured by a first fixed and specific mortgage, pledge and charge on plant and equipment and long-term power and other contracts and a first floating charge on all other assets of Twin Falls. Certain restrictions are placed by the Trust Deed on the payment of dividends other than stock dividends.

The Bonds are carried in the balance sheet at the proceeds realized in Canadian dollars and U.S. funds required to service this debt are made available under long-term power contracts without loss or gain on exchange to Twin Falls.

### (2) Capital Stock:

The issued share capital of Twin Falls consists of 250,000 Class A shares each of \$10 par value, owned by Churchill Falls (Labrador) Corporation Limited and 500,000 Class B shares each of \$10 par value, owned by the present long-term customers of Twin Falls. The Class A shares are entitled to four votes per share and the Class B shares are entitled to one vote per share but rank pari passu in all other respects.

### (3) Commitments and Contingent Liabilities:

- (i) Twin Falls has a sublease from Churchill Falls (Labrador) Corporation Limited giving Twin Falls the right to develop the hydroelectric power potential of the Unknown River, a tributary of the Churchill River, at the site of the Twin Falls plant. The sublease expires December 31, 1989, but may be renewed for a term of 25 years, if Twin Falls so requests.
- (ii) Rentals payable annually to Churchill Falls (Labrador) Corporation Limited amount to \$305,000 and \$1.40 per installed horsepower. In addition, Twin Falls pays an annual royalty of 50 cents per horsepower year generated (as defined). In the event that Churchill Falls diverts water from Twin Falls it must deliver equivalent hydroelectric power to Twin Falls as provided in the sublease. The rentals and royalty will be payable at the same rates, the royalty being calculated as though the power so delivered had been generated in the Twin Falls plant.

### (4) Company Directors' and Officers' Remuneration:

Twin Falls has nine directors and seven officers including four who are directors and officers. No remuneration was paid by Twin Falls to the directors and officers.



# TWIN FALLS POWER CORPORATION LIMITED

## AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Twin Falls Power Corporation Limited as at December 31, 1970, and the statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company at December 31, 1970, and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.  
*Chartered Accountants.*

Montreal, Que.  
February 5, 1971





One thousand feet above the Churchill Falls underground powerhouse, work proceeded during the latter part of 1970 on the construction of the 2.2 million-square-foot switchyard. By November, 1970, 90 per cent of the switchyard civil work had been completed including the pouring of some 3,000 concrete footings and the erection of first steel. During 1971, the first two of the three 735 kV transmission lines will be completed and the required switchyard components will be energized.

transmission lines. Conductor stringing got under way in the fall of 1970 and will continue through the winter.

At Sept-Iles, the 250-ton crane was placed in operation. This crane's primary function is to off-load from ships the large transformers required at Churchill Falls.

Costs incurred on the Project in 1970 were \$183 million, bringing the total expended to the end of 1970 to \$386 million. This represented nearly 60 per cent of the \$665.6 million Construction Cost Estimate for the Project. Less than 20 per cent in dollar value of construction and procurement remains to be awarded.

Of the \$183 million costs incurred during 1970 all but \$1.5 million was spent for goods and services in Canada. This expenditure provided a strong boost to the Canadian economy at a time when a slowdown in business was being experienced by suppliers and contractors. The Project also provided an average of 4,000 jobs on site throughout the year at a time when the country was facing increased unemployment.

It is fortunate that our peak construction year came at a time when the construction industry in Eastern Canada experienced a low point in volume of activity.

Since the start of work in January 1967, construction workers on the Project have been encouraged and assisted in upgrading their skills by on-the-job training. In recording the progress of each worker, the Company has documented the availability and skills of a highly developed construction workforce which will be valuable for the completion of this Project and for future developments in the same area.

The Labor Agreement, signed earlier between the site employer-contractors and 15 Newfoundland-based locals of the building trades and affiliated unions, forms the basis for fair wages and working conditions with adequate machinery for the prompt and equitable resolution of differences. Regular meetings between the council of unions and the contractors' association, for the purpose of reviewing experience, have encouraged discussion and helped to eliminate potential areas of frustration which would otherwise affect workers' incomes and interfere with the progress of contractors' work.

Observance of the letter and the spirit of the agreement continues to ensure good labor-management relations.

### 1971 Program

Turbine/generator Units 1 and 2 are scheduled for test operation by the latter part of 1971. Reservoir filling will begin this summer. The forebay will then be filled, allowing water to reach the penstocks. Removal of the cofferdam at the tailrace will flood the tunnels and the surge chamber to complete the waterflow system. The first two transmission lines will be completed and the required switchyard components energized. The control building will be completed and made operational.

The microwave system and all other communications systems will be placed in operation. Work will get under







During 1970, distinctive V-shaped transmission towers were erected over some 190 of the 250 line-miles on the first two of three 735 kV transmission lines. Stringing of conductor continued throughout the winter.

way on the Gabbro control structure which will eventually permit water from the Ossokmanuan reservoir to enter the main reservoir.

The construction labor force will reach a peak of approximately 4,000 during 1971.

The supervisory personnel who will head up the operating staff have been appointed and a nucleus of the operating group is now being trained. CFLCo personnel are now performing maintenance work which was previously done by contractors. Through 1971 the balance of the operating staff will be recruited and trained for commissioning and operating the facility.

**Memorial Dedications at Churchill Falls**

On May 7, 1970, the families and friends of those lost to CFLCo and Acres Canadian Bechtel in the tragic accident on November 11, 1969, including Directors, Officers and Staff of Brinco and CFLCo, journeyed to Churchill Falls to take part in a memorial ceremony. This included the unveiling of a plaque in the Town Centre in memory of those lost and the naming of the guest lodge as McParland House, the new Churchill Falls school as the Eric G. Lambert School, and the naming of the principal streets in the townsite, Lethbridge Avenue, Cantle Avenue, Jackson Avenue and Ressegieu Drive.

These ceremonies were a fitting tribute to the contributions made to the Churchill Falls Projects by the persons whose names were thus commemorated.

Recently the Board of Directors authorized the construction during 1971 of an indoor swimming pool adjoining the Town Centre in Churchill Falls. It will be named in memory of Mr. Donald Gordon, former President of Brinco and Chairman of CFLCo, who passed away in May of 1969.

**Financial**

Funds to meet construction costs continue to be provided from the further drawdowns of First Mortgage Bonds. A bar chart on page 20 of this Report showing the project costs and sources of funds, actual for the years 1967 to 1970 and projected for the years 1971 to 1976, depicts in one combined illustration the funding of the Project to the end of 1970 and projected funding to completion.

A second illustration, a pie-chart, also on page 20, depicts the areas of the Canadian economy to which project expenditures have been and are being directed during the years 1967 to 1976.

To December 31, 1970, First Mortgage Bonds have been issued as follows:

	Series A U.S. Dollars (\$ millions)	Series B Can. Dollars (\$ millions)
1969	71.6	11.9
1970	153.9	7.2
Total to December 31, 1970	\$ 225.5	\$ 19.1

The Bond Purchase Agreements provide that the lenders will purchase further stipulated amounts of bonds at dates designated by the Company in each quarter until the end of 1973, when totals of \$500 million (U.S.) principal amount of Series A Bonds and \$50 million (Can.) principal amount of Series B Bonds will have been issued.

On January 14, 1971, the first closing in the new year took place at which \$28.8 million (U.S.) principal amount of Series A Bonds and \$5.95 million (Can.) principal amount of Series B Bonds were issued.

*Floating of the Canadian Dollar*

Effective June 1, 1970, the Minister of Finance announced the Government's decision to free the Canadian dollar from its peg of 92.5¢ U.S. at which level it had been fixed for several years. Since the Canadian dollar was freed, it has floated upward in value at times reaching a level of almost par with the U.S. dollar and remaining in a narrow range approximating 98¢ U.S. during the last quarter of 1970. So far in 1971, the Canadian dollar has remained strong.

The action of floating the Canadian dollar has had an adverse effect on the cash received by CFLCo from the sale of its bonds, which are largely denominated in U.S. dollars, since the funds required by the Company for disbursement are largely in Canadian dollars. Currently such U.S. dollar proceeds are being converted to Canadian funds at a substantial reduction in the exchange premium which prevailed during the former pegged rate.

If the Canadian dollar remains, or is re-pegged, at or near its present level, then less Canadian funds will be realized on exchange from the sale of U.S. dollar First Mortgage Bonds than would have been the case had the Canadian dollar remained pegged at the former 92.5¢ level. This shortfall will be covered by utilizing to a somewhat greater degree than originally expected, the funds available to the Company under its standby bank credit agreement. The amount of this shortfall will depend upon the level at which the Canadian dollar trades over the next three years. At the present level of the Canadian dollar, this amount could be of the order of \$25 million.

It will be recalled that the original capital cost estimate of the Project, which still stands, was \$936 million and that financing arranged totalled \$1,073 million (Can.) as follows:

	Millions
Equity Capital .....	\$ 83
First Mortgage Bonds:	
Series A (U.S. \$500 million	
at premium of 7.5% .....	540
Series B .....	50
General Mortgage Bonds .....	100
Retained Earnings during Construction .....	150
Standby Bank Credit .....	150
	<u>\$1,073</u>

(continued on page 18)



Over the longer term, if the Canadian dollar continues strong, the Company would realize an exchange gain upon its purchase of U.S. dollars for the redemption of its outstanding U.S. dollar bonds.

### White Paper on Tax Reform

The Government's White Paper containing its proposals for restructuring the tax system has a number of significant implications for your Company and for its major shareholder, British Newfoundland Corporation Limited. Brinco submitted briefs to both Parliamentary Committees considering the White Paper and its representatives appeared before the Standing Senate Committee on Banking, Trade and Commerce in Ottawa and before the Standing Committee of the House of Commons on Finance, Trade and Economic Affairs in St. John's, Newfoundland.

At the conclusion of the House of Commons Committee hearings, the Minister of Finance proposed to the Committee an alternative procedure to that proposed in the White Paper which would reduce the rebates to the Provinces under the Public Utilities Income Tax Transfer Act. This alternative would change the basis upon which our agreements with Hydro-Quebec and Newfoundland were determined and thus pose serious problems directly affecting your Company. Representations were, therefore, immediately made by the Company to both Committees and to the Minister of Finance. The House of Commons Committee in its report recognized that the alternative arrangement proposed by the Minister of Finance would not cover situations where long-term power contracts contemplate continuation of the present situation and recommended that special Federal-Provincial attention be given to ensure a just result. Further representations have been made and we believe that the position of the Company is well understood.

### Corporate Developments

#### *Changes in Board of Directors*

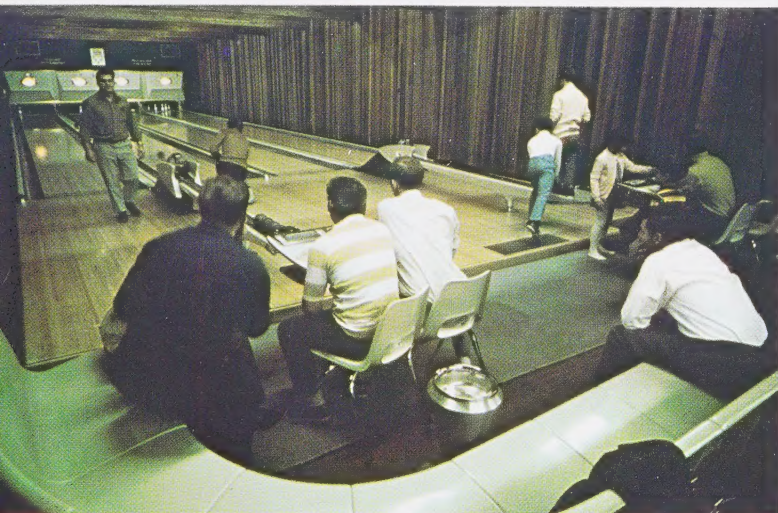
At the Annual General Meeting of Shareholders held on May 6, 1970, Mr. Robert D. Mulholland was elected a Director of the Company. Mr. Robert D. Armstrong retired from the Board of CFLCo coincident with his election to the Board of Brinco.

Focal point of the Churchill Falls community is the Town Centre (*top*) featuring a complete range of recreational and retail facilities including a 21-room hotel and a school (*bottom*) which operates under a permit issued by the Department of Education of the Province of Newfoundland and employs the most modern teaching aids available.

*Facing page:* Recreational facilities on site include a bowling alley (*top*) a combined auditorium/theatre, library, gymnasium, curling rink and full hotel services. Retail facilities include a grocery (*centre left*) offering a complete selection of fresh meats, fish and produce as well as a wide range of canned and packaged goods at prices competitive with those prevailing in large eastern Canadian cities. Skiers at Churchill Falls can enjoy a 2,000-foot hill (*centre right*) complete with two rope tows and a ski lodge. During construction of the development, all Town Centre facilities are available to both residents of the Main Camp and the permanent community (*bottom*).







#### *Appointment of Officers*

Subsequent to the last Annual Meeting, a number of appointments were made to senior officer positions in the Company. On May 6, 1970, the following appointments were made:

Mr. Harold L. Snyder—Executive Vice-President  
 Mr. Robert C. Berry—Vice-President & Chief Financial Officer  
 Mr. William E. Bradford—Vice-President & Chief Accounting Officer

As of November 1, 1970, Mr. Richard D. Boivin, formerly Assistant Project Manager—Construction, was appointed Project Manager of Churchill Falls Project, reporting to the Executive Vice-President.

Mr. Raymond H. P. Thom was appointed Manager of Operations.

Mr. Paul Joli-Coeur was appointed Manager of Engineering.



#### **Twin Falls Power Corporation Limited**

Operations of the Twin Falls system have continued satisfactorily throughout the year. Preliminary planning has been done leading to the eventual shutdown of the Twin Falls Plant which will occur when water from the Twin Falls reservoir is diverted to permit more efficient use, into the Churchill Falls reservoir. This is scheduled to take place before the end of 1975.

Further increases in the requirements for power of the iron ore mining centres in Western Labrador are indicated by the announced development of new operations and by the expansion of existing facilities.

Messrs. H. W. Macdonell, Q.C. and R. C. Berry, C.A. were elected Vice-Presidents of Twin Falls during the year. In October 1970, Mr. Raymond H. P. Thom was appointed General Manager of Twin Falls succeeding Mr. Elmer G. Squires who has since moved to Montreal on his appointment as Director, Administrative Staff of the Brinco Group.



The Directors wish to acknowledge the valuable contribution made by the staffs of the Company and of the organizations associated with us in the Churchill Falls Project towards the outstanding record of accomplishment achieved during 1970. We thank these men and women for their able and devoted service.

SIR VAL DUNCAN, O.B.E.,  
CHAIRMAN

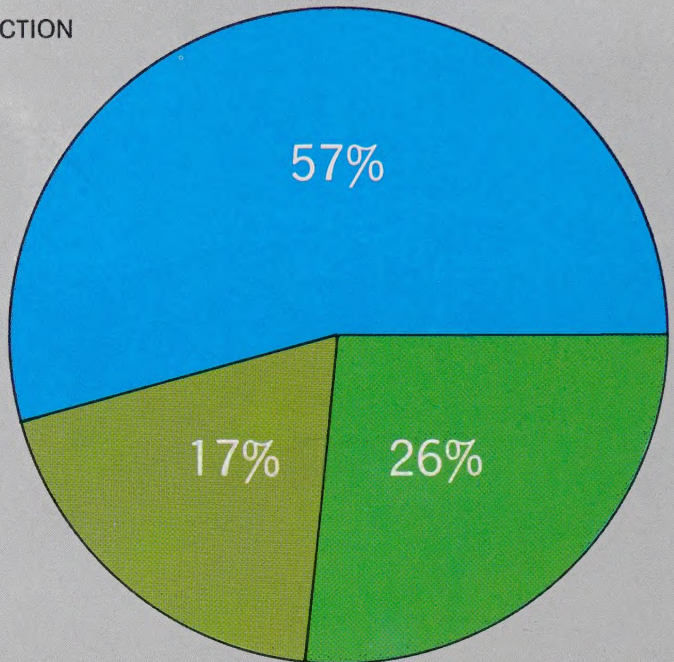
WILLIAM D. MULHOLLAND,  
PRESIDENT

Montreal, March 4, 1971



PROJECT EXPENDITURES ON DIRECT CONSTRUCTION COSTS IN CANADA — 1967-1976

- Manufacturing industry  
\$372 million
- Service industry  
\$114 million
- Direct Labor  
\$170 million



PROJECT CAPITAL COST AND SOURCE OF FUNDS

- Shareholders' capital  
\$83 million
- First mortgage bonds  
\$570 million
- Bank loan  
\$25 million
- General mortgage bonds  
\$100 million
- Cash generated from operations and other sources  
\$159 million
- Bank credits available  
\$125 million

